

INFORMATION SHEET ON BONDS SECURED BY U.S. TREASURY SECURITIES

The following procedures are to assist the applicant in obtaining a U.S. Treasury Bill, Note, or Bond to be used as security for bond coverage required by the Bureau of Land Management (BLM), Department of the Interior. Instead of being transferred to the BLM's book-entry account through the Federal Reserve Bank (FRB) as in the past, securities will now be held in a Circular 154, U.S. Government Account Number 11, under the obligor's depository financial institution's (bank's) American Bankers Association (ABA) number with the FRB. Once the security is transferred into the Circular 154 Account Number 11, neither the obligor nor the bank will be able to access the security without the BLM providing authorization to the FRB to do so.

Therefore, when you as the obligor contact your bank to purchase a negotiable U.S. Treasury security, you need to send the following to the BLM office responsible for administering the lease(s) for which the bond is being provided as soon as possible:

- 1 Your name and address
2. The serial number of the oil and gas lease (or a statement that the bond is for statewide, nationwide, NPR-A, or unit coverage).
- 3 The type of Treasury security purchased (Bill, Bond, or Note).
4. The par amount of the security, the interest rate and maturity date of the security.
5. The Committee on Uniform Securities Identification Procedures (CUSIP) number of the security.
6. The name and mailing address of your bank, along with the name and telephone number of a contact person, if possible.
7. The depository bank's nine-digit ABA number.
8. The name of the FRB or branch servicing the depository financial institution.

Upon receipt of the information in Items 1-8, above, the BLM office will telefax a copy of that information to the BLM Business Center's Negotiable Securities Custodian. The Negotiable Securities Custodian will then contact both the servicing FRB or branch and the obligor's bank to authorize the transfer of the Treasury security to the Circular 154 Account Number 11.

THE OBLIGOR'S FINANCIAL INSTITUTION MUST **NOT** TRANSFER THE SECURITY TO THE CIRCULAR 154 ACCOUNT NUMBER 11 UNTIL AUTHORIZATION IS GIVEN BY THE BLM NEGOTIABLE SECURITIES CUSTODIAN.

When the Treasury security is transferred to the Circular 154 Account Number 11, the financial institution must include the following information in the electronic transfer message: "Security pledged to DOI-BLM (Name of Office) by (Name of Obligor) for (Lease number, etc.).". The following is an example of an acceptable transfer message: "Security pledged to DOI-BLM Wyoming State Office by Alpha Corporation for Oil and Gas Lease WYW12345."

Upon transfer of the negotiable security, the obligor is to provide the following information, in writing, to the appropriate BLM office:

1. A fully-completed current BLM bond Form 3000-4 (or Form 3000-4a for geophysical exploration). A power of attorney which authorizes the Secretary of the Interior to collect the funds in case of default in the lease terms as a part of Form 3000-4 (or Form 3000-4a).

2. A transaction document from your bank to verify that the amount that you paid for the security, excluding any commission fee and accrued interest, equals or exceeds the bond amount requirement of the BLM regulations. A discounted value less than the full amount is **not** acceptable. If a Treasury Bill, purchased at a discount, is submitted for less than the required bond amount, the bonded party must make up the difference, otherwise the bond will be returned as unacceptable. The obligor may submit a certified check or cashier's check in the amount of the deficiency to bring the bond up to the required amount.

The FRB will send the BLM Negotiable Securities Custodian a Statement of Pledged Activity and/or Acknowledgement of Book-Entry Deposit to document that the Treasury security was placed in the BLM Circular 154 Account Number 11, including the date on which the transfer took place. A copy of the Statement and/or Acknowledgement will be sent to this office by the BLM Negotiable Securities Custodian.

Upon receipt of the items from the obligor and Negotiable Securities Custodian, the BLM will notify the obligor with a written decision of the BLM's acceptance of the negotiable security. The BLM will notify the obligor in the decision: (1) that the personal bond has been accepted; (2) the BLM Bond Number assigned to the bond; and (3) the date that bond coverage is effective. The BLM office will also furnish a copy of its bond acceptance decision, along with a copy of the "Acknowledgement of Book-Entry Deposit, Release of Account Transfer," to the Negotiable Securities Custodian.

Semi-annual interest on Treasury Notes and Bonds will be transferred by the FRB to the obligor's bank, which will transfer the interest to the obligor in accordance with an agreement between the obligor and the financial institution (e.g., deposit the interest to a checking or savings account, etc.). The obligor's financial institution will be responsible for sending a 1099-INT form to the obligor for the interest paid the previous calendar for tax purposes.

The BLM Negotiable Securities Custodian will notify the appropriate BLM office about a maturing Treasury security approximately 90 days before the maturity date, and the BLM office, in turn, will notify the obligor by letter that the security is maturing.

If bond coverage is no longer required upon maturity of the security, or if acceptable replacement bond coverage is provided **before** the maturity date of the security, the BLM office will send a memorandum requesting that the Negotiable Securities Custodian direct the FRB to transfer the security from the Circular 154 Account Number 11 to the obligor's bank.

If replacement bond coverage is provided **after** the maturity date of the security, the BLM office will send a memorandum to the Negotiable Securities Custodian requesting that the proceeds of the matured security be transferred from the Circular 154 Account Number 11 to the obligor's bank after an acceptable replacement bond has been provided to the BLM office by the obligor.

If collection under the bond is necessary due to a default under the terms of the lease or leases covered by the bond, the BLM will send a memorandum to the Negotiable Securities Custodian requesting the FRB to transfer the proceeds of the Treasury security to the BLM. The proceeds of the security will then be deposited into the BLM office's suspense account to handle the costs of the default on the lease or leases.

If your bank has any questions about any of the information provided, it should contact the serving FRB or branch. Any questions concerning the BLM's procedures may be directed to the BLM Business Center's Negotiable Securities Custodian, BC-610, Federal Center, Denver, Colorado 80225-0047, Telephone (303) 236-6325. For information concerning the BLM bond requirements in general, the obligor may contact (Name and telephone number of the BLM State Office Bond Coordinator).